

FINAL ANNUAL BUDGET OF

MAGARENG



MUNICIPALITY

2015/16 TO 2017/18

MEDIUM TERM REVENUE AND EXPENDITURE FORECAST



ABBREVIATIONS AND ACRONYMS

| | |
|-------|---|
| DME | Department of Mineral and Energy |
| DORA | Division of Revenue Act |
| EPWP | Extended Public Work Programme |
| FMG | Finance Management Grant |
| FBDM | Frances Baard District Municipality |
| IDP | Integrated Development Plan |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| MPAC | Municipal Public Account Committee |
| MSIG | Municipal System Improvement Grant |
| MTREF | Medium Term Revenue and Expenditure Framework |
| PPE | Property, Plant and Equipment |
| ISDG | Infrastructure Skill Development Grant |

INTRODUCTION

A. VISION STATEMENT

Magareng will be a viable and prosperous Local municipality, fully resourced to ensure sustainable, integrated and affordable service delivery to the community.

B. MISSION STATEMENT

We intend to realize our vision through:

- Skills development and institutional capacity-building
- Continuous improvement on internal and external communication
- Strengthening the provision of integrated service delivery
- Striving towards service excellence and value driven Batho Pele principles service delivery • Investing in modern equipment and technology for reliable service delivery
- Creating a conducive environment for business development

C. OUR VALUES:

The Municipality has adopted values which underpin the image, decorum and culture of the organisation as it interacts with its residents. We intend to uphold the following values:

- Teamwork
- Timeliness
- Mutual Respect
- Professionalism
- Striving for excellence

MUNICIPAL BUDGET

DEFINITION OF A MUNICIPAL BUDGET

A municipal budget is generally a projection of future revenues and expenditure. A budget is used to control financial transactions and should be used as a management and planning tool.



It is also a tool for implementing the service delivery objectives of the Municipality as set out in their Integrated Development Plan.

A Municipal budget also provides for greater transparency, accountability, flexibility and predictability within the municipality.

A Municipal budget is divided into a Capital and an Operating Budget:

- a) A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded. The municipality spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond one year. Fixed assets include, inter alia, land and buildings, motor vehicles, furniture, computers, office equipment and machinery.
- b) An operating budget is an estimate of the operating revenues which will accrue to the municipality through its normal service delivery and the expenditure that will be incurred through the day to day operations of the municipality over the financial year.

Example: The purchase of a photocopier is a capital expenditure and is budgeted for under the capital budget, but the maintenance and other expenses such as the paper and toner for the photocopier is budgeted for under the operating budget.

OBJECTIVE OF A MUNICIPAL BUDGET

The main objective of a municipal budget is to sensibly allocate realistically expected resources to the municipality's service delivery goals or performance objectives identified as priorities in the approved IDP

The municipal budget is a tool through which the total level of revenue and expenditure are adequately controlled, public resources are appropriately allocated among sectors and programs, and ensure that departments operate as efficiently as possible within the municipality.

.

MAGARENG



MUNICIPALITY

MAYOR SPEECH WILL BE INCLUDED AFTER THE DRAFT BUDGET IS APPROVED

EXECUTIVE SUMMARY

2 BUDGET OVERVIEW:

2.1 Introduction

The 2015/2015 Medium Term Revenue and Expenditure Framework and the Multi-Year Budget has been prepared to reflect the three year plan of Magareng Local Municipality. In addition, the directive from National Treasury based on MFMA circulars No 74 and 75 were used as the bases for preparation of this budget.

National Treasury has emphasized that the following areas needs to be given attention:

- i) Achieving faster sustainable growth and large scale job creation
- ii) Reforming the system of developing charges to improve fairness and transparency and reduce delays in infrastructure provision.
- iii) Pricing Service Correctly – Management of Rebates and Subsidies
- iv) Under spending on repairs and maintenance
- v) Spending on low priorities – Luxury furnishing and excessive catering

The main challenges experienced in the 2014/2015 Budget can be summarized as follows:

- The increased cost of bulk purchases.
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- The state and lack of maintenance for infrastructure maintenance.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

Over and above the guidelines from National Treasury, the budget was also influenced by the following:

- The performance of 2014/2015 budget was used as baseline.
- CPI guidelines from National Treasury except were specific sector increases are prescribed.

- Tariff and property rate increases should be affordable and generally not to exceed inflation as measured by the CPI except where adjustment are justified and where price increase is prescribed or determined outside the municipality's powers.

In order to ensure sustainability of vision and financial viability of the municipality in the long term, municipal tariffs have adjusted as follows:

- Water: Residential 6%
- Water: Business 10%
- Electricity: 12.20%
- Property rates: 6%
- Sewerage: Residential 6%
- Sewerage: Business 10%
- Refuse Collection: Residential 6%
- Refuse Collection: Business 10%
- Miscellaneous: 6%

Below is a look of how the proposed tariff will affect the consumer:

| Current Tariff | | New Tariff | | % Increase/ Decrease |
|----------------------------|-----------------|-----------------|--------------------|----------------------------|
| | | | | |
| Refuse removal | 64.87 | 68.76 | | 6.00% |
| Sewerage Basic Charge | 21.04 | 22.28 | | 6.00% |
| First Extraction | 105.14 | 111.45 | | 6.00% |
| Electricity : Basic Charge | 99.16 | 111.26 | | 12.20% |
| Consumption - 500kwh | 485.20 | 542.80 | | 12.20% |
| Water : Basic Charge | 28.26 | 29.96 | | 6.00% |
| Consumption - 25kl | 234.42 | 246.95 | | 6.00% |
| Property rates :MV | 134.98 | 143.08 | Property Rates: MV | 6.00% |
| Improvements | 0 | 0 | | |
| | 1 173.07 | 1 276.54 | | |
| 14% VAT | 164.23 | 178.72 | | |
| Total account | 1 337.30 | 1 455.26 | | 7.55% |

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. Hence Provision has been made in the 2015/2016 Draft Budget for the provision of free basic services consists of the following:

- Water : 6 Kilolitre per month for 2,325 indigent households
- Sewerage :Free basic sanitation for 2,325 indigent households.
- Refuse Removal : free refuse removal for 2,325 indigent households.
- Electricity : 50 kwh per month for indigent households

The cash flow position of the municipality is currently not good and is expected to be under pressure for 2015/2016, a conservative approach to spending and utilization of Municipal assets will ensure that this matter is addressed. As per directive from the Provincial treasury in terms of section 23 of the MFMA 56 of 2003, the budget was cut significantly on the on the expenditure so that it can be realistic as possible.

2.2 Consolidated Overview

The total budget of the municipality is R105.7 million which comprises of R 91,8 Operating Budget and R13,9 million for total Capital Budget, details for the Multi-year Budget are given in the table below:

| Details | Budget Year 2015/16 | Budget Year 2016/17 | Budget Year 2017/18 |
|------------------------|------------------------|------------------------|------------------------|
| Total Operating Budget | 91,827,000 | 92,484,000 | 95,510,000 |
| Total Capital Budget | 23,939,000 | 12,196,000 | 12,580,000 |
| Total | 115,766,000 | 104,680,000 | 104,090,000 |

The total operating budget for 2015/2016 has increased with 7.73% compared to the 2014/2015 budget.

The total capital budget for 2015/2016 has decreased from **R21mil** to **R13.9** mil as compared to the 2014/2014 due to the fact that our capital budget is reliant on grants only (MIG)

3 BUDGET SUMMARY AND ANALYSIS

3.1 Medium Term Outlook 2015/2016 – 2017/2018

CAPITAL BUDGET

The Capital Budget is directly informed by the needs of the community submitted through the IDP process. The Capital Budget is mainly funded through Grant Funding in terms of DORA.

OPERATING BUDGET

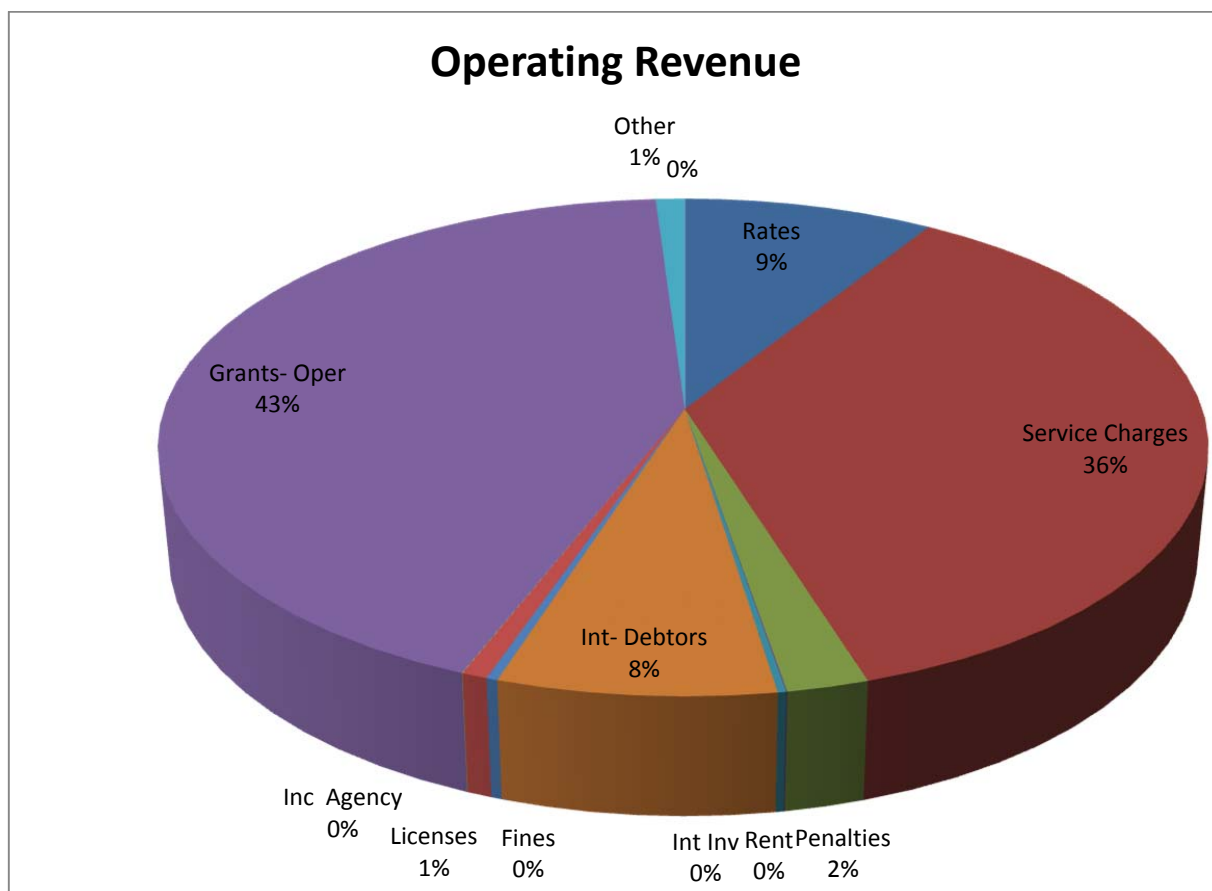
The Operating Budget which deals with the day to day operation of the municipality to ensure service delivery to the communities has conservatively increased for the MTEF. The growth could be attributed to mainly the following:

- Cost of bulk purchases
- Service Delivery back log
- Cost of repair and maintenance
- Employee related cost

3.2 Budget Analysis

3.2.1 Operating Revenue per Source

| Revenue By Source R thousand | 2013/14 | Current Year 2014/15 | | 2015/16 Medium Term Revenue & Expenditure Framework | | |
|--|-------------------|----------------------|-------------------|---|---------------------|---------------------|
| | Audited Outcome | Original Budget | Adjusted Budget | Budget Year 2015/16 | Budget Year 2016/17 | Budget Year 2017/18 |
| Revenue By Source | | | | | | |
| Property rates | 4 522 649 | 4 897 563 | 4 897 563 | 8 169 893 | 8 321 287 | 8 640 558 |
| Property rates - penalties & collection charges | - | 1 000 000 | 700 000 | 2 000 000 | 2 056 000 | 2 119 360 |
| Service charges - electricity revenue | 13 322 720 | 15 181 372 | 17 471 168 | 17 273 186 | 17 184 484 | 18 215 553 |
| Service charges - water revenue | 6 164 179 | 6 296 065 | 5 846 492 | 6 681 612 | 7 055 782 | 7 479 129 |
| Service charges - sanitation revenue | 1 099 498 | 4 226 683 | 4 428 683 | 5 337 725 | 5 636 638 | 5 974 836 |
| Service charges - refuse revenue | 3 492 264 | 3 751 236 | 3 751 236 | 3 999 828 | 4 223 818 | 4 477 247 |
| Service charges - other | 18 478 | | | | | |
| Rental of facilities and equipment | 52 995 | 60 000 | 30 000 | 30 000 | 31 680 | 33 581 |
| Interest earned - external investments | 240 183 | 1 003 500 | 323 302 | 200 000 | 211 200 | 223 872 |
| Interest earned - outstanding debtors | 5 199 344 | 6 490 000 | 6 635 000 | 6 785 000 | 7 164 960 | 7 594 858 |
| Dividends received | - | - | - | | | |
| Fines | 202 461 | 1 012 500 | 158 750 | 275 000 | 290 400 | 307 824 |
| Licences and permits | 397 059 | 426 500 | 438 500 | 630 000 | 665 280 | 705 197 |
| Agency services | - | 12 500 | 6 250 | 12 500 | 13 200 | 13 992 |
| Transfers recognised - operational | 35 560 105 | 39 351 000 | 30 328 692 | 39 482 750 | 38 626 280 | 38 661 057 |
| Other revenue | 8 069 405 | 618 500 | 1 414 951 | 950 000 | 1 003 200 | 1 063 392 |
| Gains on disposal of PPE | | 1 987 630 | 200 000 | | | |
| Total Revenue (excluding capital transfers and contributions) | 78 341 340 | 86 315 049 | 76 630 587 | 91 827 494 | 92 484 000 | 95 510 000 |



3.2.1.1 Property Rates

The property rates show estimated revenue of R 8 million. An amount of R 750,000.00 is budgeted for the income foregone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 9% of the total operating revenue. The revised charge tariffs are as follows:

➤ **Property Rates :**

Proposed new tariffs are:

Business : R0, 01951 per R value of Valuation

Residential : R0, 01171 per R value of Valuation

Agriculture : R0, 00049 per r value of Valuation

➤ The first R15 000 of all residential properties are exempted from being taxable.

3.2.1.2 Service Charges

Service charges include electricity, refuse, sewer and water. The total amount budgeted for service charges is R 32 million which is made up of the following amounts:

- Water R6,681,612
- Refuse R 3,999,828
- Sewerage R 5,337,725
- And electricity R 16,273,186

The service charges contribute 36% of the total operating revenue.

3.2.1.3 Interest on Debtors

Interest on debtors is guided by CPI and inflation rate as contained in Circular 75.

3.2.1.4 Agency Fees

The function is done on behalf of Department of roads and transport and estimates for this revenue stream is R12,500.00

3.2.1.5 Grants and Subsidies

Operating

The grants subsidies operational refers to the Equitable shares, Finance Management Grant, Municipal Systems Grant, Improvement Grant and the Library Grant.

The revenue R39 million is based on the DORA allocation in which was made public in April by the Minister of finance. This revenue stream contributes 43% of the total operating revenue.

3.2.1.6 Other Revenue

Other revenue streams contribute 1% on operating revenue with an amount of R950,000.00 this typically includes revenues like:

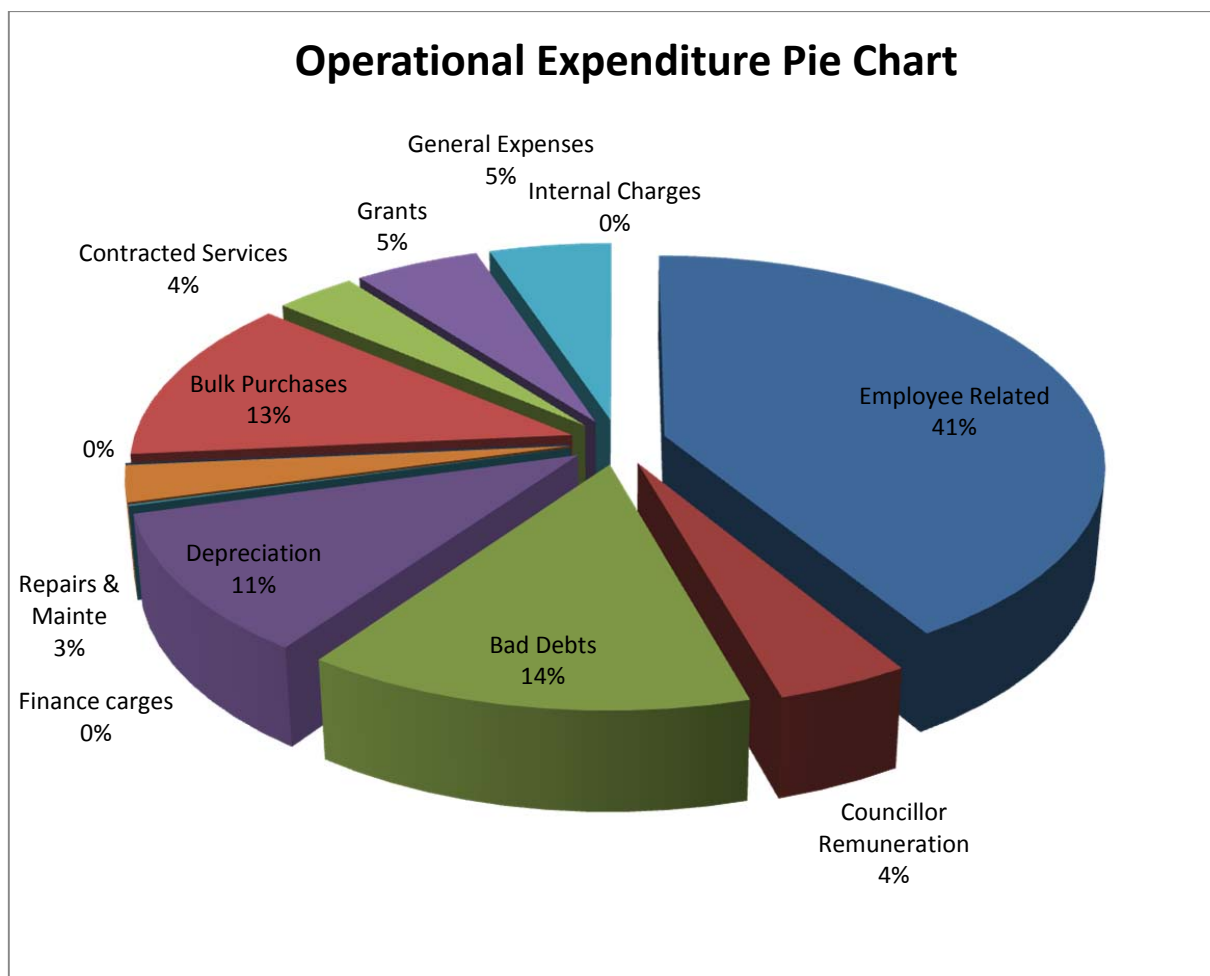
- Actuarial gain
- Burial fees
- Clearance certificates and
- Valuation certificates

3.2.1.7 License and Permits

License and permits stream contribute 1% on operating budget with an amount of R665,280.00

3.2.2 Operating Expenditure

| Expenditure by type R thousand | 2013/14 | Current Year 2014/15 | | 2015/16 Medium Term Revenue & Expenditure Framework | | |
|---------------------------------------|-------------------|----------------------|--------------------|---|------------------------|------------------------|
| | Audited Outcome | Original Budget | Adjusted Budget | Budget Year 2015/16 | Budget Year +1 2016/17 | Budget Year +2 2017/18 |
| <u>Expenditure By Type</u> | | | | | | |
| Employee related costs | 27 695 417 | 33 857 392 | 32 690 686 | 37 051 267 | 39 126 138 | 41 473 706 |
| Remuneration of councillors | 2 893 211 | 3 119 260 | 3 119 260 | 3 783 202 | 3 995 061 | 4 234 765 |
| Debt impairment | 2 636 994 | 18 852 959 | 18 852 961 | 12 677 241 | 13 387 166 | 14 190 396 |
| Depreciation & asset impairment | 19 626 349 | 11 186 314 | 11 186 314 | 9 720 352 | 6 311 242 | 4 462 411 |
| Finance charges | 992 194 | 100 000 | 100 000 | 100 000 | 105 600 | 111 936 |
| Bulk purchases | 16 626 554 | 16 739 713 | 13 839 713 | 5863909 | 14 257 929 | 15 293 405 |
| Other materials | - | - | - | 2 500 000 | 2 600 000 | 2 650 000 |
| Contracted services | 1 459 577 | 2 842 000 | 2 177 500 | 2 610672 | 3 225 552 | 3 419 085 |
| Transfers and grants | 3 042 182 | 6 761 000 | 6 761 000 | 4 716 750 | 3 678 280 | 3 883 057 |
| Other expenditure | 20 609 939 | 21 829 507 | 17 134 848 | 4 603 000 | 4 902 200 | 5 275 232 |
| Loss on disposal of PPE | | | | | | |
| Total Expenditure | 95 582 417 | 115 288 144 | 105 862 283 | 83 713 037 | 91 680 000 | 95 090 000 |
| | | | | | | |
| Transfers recognised - capital | 12 776 804 | 22 287 000 | 21 487 000 | 13 939 000 | 12 196 000 | 12 580 000 |



3.2.1 Employee Related Cost

Employee related cost has been based on the current organization structure and provision has been made for 6% increase pending the salary and wage negotiation outcome. The expenditure category represents 43% of the total operating expenditure.

3.2.2 Remuneration of Councilors

Provision has been made for 6% increase for remuneration of Councilors this amounts to 4% of total operating expenditure.

3.2.3 General Expenditure

General expenditure amounts to 5% of total operating expenditure and it has decline significantly from the original budget of 2014/2015. Decline can be attributed to the municipality experiencing cash flow problems hence a conservatives approach has been taken in this regards. This category typically includes expenditure such as:

- SLGSA Affiliation fees
- Audit fees
- Motor vehicle fuel
- Indigents subsidies and
- Travel and accommodation for official and councilors

3.2.4 Bulk Purchases

The bulk purchases for water and electricity for the 2015/2016 amounted to R11mil for the financial year, which is 13% of the total operating expenditure. The expenditure category is influenced by Eskom increases and CPIX which is 14.24% and 6% on water respectively.

3.2.5 Repairs and Maintenance

Although contribution to repairs and maintenance from council site is not up to the required standard an amount of R2, 500,000 is budget and it contribute 3% of the total operating expenditure.

3.2.6 Contracted Services

Contracted Services has been increased with an average of 4%. This expenditure category is influenced by various contractual obligations with Service Providers.

3.3 Capital Budget

This relates to conditional grants and has decreased from R 22,287,000.00 (2014/2015) to R 13,939,000(2015/2016). This can be attributed to the fact that the municipality was only approved to capital projects which are as follows;

- The upgrading of internal roads in Warrenvale and Ikhutseng which will be funded by MIG.
- The reticulation of electricity in warrenvale that will be funded by INEP

Both these grants funded and gazetted in terms of DORA

4. CHALLENGES 2014/2015

4.1 Cash Flow

The municipality experienced negative cash flow as a result non billing which leads to non-payment by consumers. The municipality also did not received its full allocation of the amount of

Equitable share that was that was due to it, an amount of R9,315,000.00 was withheld by national treasury due to unspent conditional grants in past financial years.

5. BUDGET PROCESS

5.1 Overview

The budget process is an effective process that the municipality must undertake to ensure good governance and to promote accountability. Budgeting is primarily about priorities and choices that the municipality has to make in deciding how to meet the objectives set for service delivery. The budget preparation process is guided by the following legislative requirements:

- Municipal Budget and Reporting Regulation
- Municipal Finance Management Act
- Municipal System Act
- Municipal Structures Act

The process started with the approval of the IDP and Budget timetable in August 2014 which included the process plan for the formulation of the new IDP.

Communities will be consulted wherein a ward based plan will be developed to deal with infrastructure requirement of the municipality.

Projects will be identified and prioritize taking into consideration the funding available.

5.2 Political Oversight

Section 53(1)(a) states that the Executive Mayor must provide political guidance over the budget process and the priorities that must guide the preparation of the budget.

It is also entrusted to the Executive Mayor to ensure that the budget is approved on time and that the Service Delivery and Budget Implementation plans are developed and approved.

5.3 Consultation Process

Section 22 of the Municipal Finance Management Act requires that after tabling the Draft Annual Budget, the municipality must avail the budget to public and also invite local community to submit comments on the approved budget.

Consultative meetings will be held during April 2015 wherein the budget will be presented to the communities.

5.4 Schedule of Key Deadlines

One of the objectives of the budget timetable is to ensure that there is interaction between the development of the IDP and budget. The budget time table was approved by Council on the 29th of August 2014, thus 10 months before the start of the financial year.

6. BUDGET ASSUMPTION

6.1 Key Financial Indicators

Budget assumption / parameters are determined before the budget process, guided by the economic outlook, movement in terms of markets and the National Treasury guidelines. All steps have been taken to be in line with National Treasury Guidelines, however the following factor affect the municipal operation and the budget should be accordingly:

- Anticipated high fuel price
- High Salaries
- Increase by Eskom

Key budget parameters used in developing the operation budget.

| Description | 2015/2016 | 2016/2017 | 2017/2018 |
|-----------------------|-----------|-----------|-----------|
| Inflation | 4.8% | 5.9% | 5.6% |
| Remuneration: | | | |
| Employees | 6% | 5.6% | 6% |
| Councilors | 6% | 5.6% | 6% |
| Fuel / Diesel | 6% | 5.6% | 6% |
| Water Purchases | 6% | 5.6% | 6% |
| Electricity Purchases | 12.20% | 5.6% | 6% |
| General Expenditure | 6% | 5.6% | 6% |

6.2 Credit Rating

The Municipality has not undergone a credit rating.

6.3 Borrowing and Investments

The MFMA permits the borrowing for long-term if it is for the acquisition of capital goods such as plant, equipment and infrastructure. Currently the municipality is not considering any long term borrowing except for short- term in the form of an overdraft.

Currently the municipality has no investments and only call accounts are utilized upon receipts of grants.

7. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipality's budget related policies. These policies are available from the municipality on request.

The accounting policy is reviewed on an ongoing basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

Budget related policies are attached.

7.1 Virement Policy

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

7.2 Accounting policy

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

7.3 Supply Chain Management Policy

The supply chain management policy was adopted and amendments are as result of council resolution.

7.4 Credit control and Debt collection policy

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

7.5 Tariff policy

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

7.6 Fixed Asset Management Policy

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

8 DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

8.1 Budget

The amount budget has been developed in terms of the MFMA Circulars and Reporting Regulation and National Treasury Requirements. Budget has been tabled within the required legislative timeframes. It has also compiled in line with budget related policies,thus Virement Policy,

Accounting policy, Supply Chain Management Policy, Credit control and Debt collection policy, Revenue policy on tariff setting modeling, Fixed Asset Management Policy.

8.2 Budget and Treasury Office

A budget and treasury office has been established.

8.3 Audit Committee

The Audit Committee has not yet been established and shared - services is used with the district.

8.4 Municipal Public Accounts Committee

The committee has been established and is supported by various sub-committees.

9. ANNUAL BUDGET SCHEDULE

The Budget schedules are attached.

10. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The SDBIP is a key management implementation and monitoring tool, which provides operational content to the end-of-year service delivery targets, set in the budget and IDP.

The SDBIP will be tabled after the final budget approval in May as per the requirement of the legislation.

11. BUDGET RELATED RECOMMENDATIONS

11.1 That the report on the Medium Term Revenue and Expenditure Framework for 2015/16 and the indicative allocations for the outer years **BE APPROVED**.

11.2 That in terms of Section 24 of the Municipal Finance Management Act, Act 56 of 2003, the Medium Term Revenue and Expenditure Framework for 2015/16 amounting to R 91.8 million Operating Budget and R 13.9 million Capital Budget; and the indicative allocations for the outers years; and the multiyear and single year capital appropriations **BE APPROVED** as follows:

| | | |
|----------|---|--|
| Table A1 | : | Budget Summary |
| Table A2 | : | Financial Performance |
| Table A3 | : | Budgeted Financial Performance per vote |
| Table A4 | : | Budgeted Financial Performance (Revenue and Expenditure) |
| Table A5 | : | Capital Expenditure per Vote |
| Table A6 | : | Financial Position |
| Table A7 | : | Cash Flow |
| Table A8 | : | Reserves |

| | | |
|-----------|---|------------------------------------|
| Table A9 | : | Assets |
| Table A10 | : | Basic Service delivery Measurement |



QUALITY CERTIFICATION

I..... (Print Name), Municipal Manager of Magare local Municipality, hereby certify that the Draft budget have been prepared accordance with the Municipal Finance Management Act and the regulations made under the Act.

Signature

Date

I..... (Print Name), Chief Finance Officer of Magareng local Municipality, hereby certify that the Draft budget have been prepared accordance with the Municipal Finance Management Act and the regulations made under the Act.

Signature

Date